

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

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**FINANCIAL STATEMENTS**

**and**

**ADDITIONAL INFORMATION**

**with**

**INDEPENDENT AUDITOR'S REPORT**

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**YEARS ENDED DECEMBER 31, 2019 AND 2018**

**GBN, P.A.**

*Certified Public Accountants*

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hospital District No. 1,  
Sumner County, Kansas  
Caldwell, Kansas

**Report on the Financial Statements**

We have audited the accompanying financial statements of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2018 the Hospital District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinion is not modified with respect to this matter.

### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information on page 34 and 35 and the Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Additional Information**

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information on pages 36 through 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in dark ink that reads "GBN, P.A." in a cursive, stylized font.

Wichita, Kansas  
September 4, 2020

## HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hospital District No. 1, Sumner County, Kansas (Hospital District's) financial performance provides an overview of the Hospital District's financial activities for the fiscal years ended December 31, 2019 and 2018. Please read it in conjunction with the Hospital District's financial statements, which begin on page 7.

#### **Financial Highlights**

- The Hospital District's net position decreased in 2019 by \$101,159 or 8.24% compared to an increase in 2018 by \$201,565 or 19.64%.
- The Hospital District reported an operating loss in both 2019 (\$679,941) and 2018 (\$343,235). The operating loss in 2019 increased by \$336,706 or 98.10% over the loss reported in 2018. The operating loss in 2018 increased by \$102,938 or 42.84% over 2017.
- Salaries and employee benefits increased by \$423,489 or 16.02% in 2019 compared to a decrease of \$17,931 or 0.67% in 2018.
- Net nonoperating revenues/expenses increased by \$33,982 or 5.62% in 2019 compared to 2018. Net nonoperating revenues/expenses decreased in 2018 by \$60,054 or 10.20% compared to 2017.

#### **Financial Statements**

The Hospital District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenues, expenses and change in net position*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Hospital District is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Hospital District's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital District's cash receipts and cash payments during the year.

#### **Financial Position**

The information below summarizes the Hospital District's net position as of December 31, 2019, 2018 and 2017.

	2019	2018	2017
Assets:			
Current assets	\$ 2,463,807	\$ 2,832,554	\$ 2,102,912
Capital assets, net	748,054	873,970	893,522
Other noncurrent assets	3,315	3,307	3,298
Total assets	3,215,176	3,709,831	2,999,732
Deferred outflows of resources	301,098	333,223	348,352
Total assets and deferred outflows of resources	<u>\$ 3,516,274</u>	<u>\$ 4,043,054</u>	<u>\$ 3,348,084</u>
Liabilities:			
Long-term liabilities	\$ 1,464,925	\$ 1,470,137	\$ 1,391,074
Other liabilities	308,173	743,014	315,703
Total liabilities	1,773,098	2,213,151	1,706,777
Deferred inflows of resources	616,442	602,010	614,979
Total liabilities and deferred inflows of resources	<u>\$ 2,389,540</u>	<u>\$ 2,815,161</u>	<u>\$ 2,321,756</u>
Net position:			
Invested in capital assets, net	\$ 664,016	\$ 752,030	\$ 783,076
Restricted	2,979	2,971	2,964
Unrestricted	459,739	472,892	240,288
Total net position	<u>\$ 1,126,734</u>	<u>\$ 1,227,893</u>	<u>\$ 1,026,328</u>

### **Recent Financial Performance**

The schedule below is a summary of the Hospital District's revenues, expenses and changes in net position for the years ended December 31, 2019, 2018 and 2017.

	2019	2018	2017
Operating revenue	<u>\$ 4,680,755</u>	<u>\$ 4,347,870</u>	<u>\$ 4,227,239</u>
Operating expenses:			
Salaries	2,284,937	1,975,678	2,002,703
Employee benefits	782,288	668,058	658,964
Supplies and other	2,142,548	1,878,250	1,617,969
Depreciation and amortization	150,923	169,119	187,900
Total operating expenses	5,360,696	4,691,105	4,467,536
Loss from operations	<u>(679,941)</u>	<u>(343,235)</u>	<u>(240,297)</u>
Nonoperating revenues/expenses:			
Taxes	535,797	512,575	485,121
Noncapital grants and contributions	11,696	26,030	94,793
Other, net	31,289	6,195	24,940
Total nonoperating revenues/expenses	578,782	544,800	604,854
Increase (decrease) in net position	<u>(101,159)</u>	<u>201,565</u>	<u>364,557</u>

The first component of the overall change in the Hospital District's net position is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital District has reported an operating loss. This is consistent with the Hospital District's operating history. The operating loss in 2019 increased by \$336,706 or 98.10% higher than the operating loss reported in 2018. The operating loss in 2018 increased by \$102,938 or 42.84% higher than the operating loss reported in 2017.

Gross patient service revenue, that is, charges to patients before reduction for contractual adjustments, charity care and the provision for bad debts, increased by \$195,218 or 3.56% in 2019 and increased by \$830,273 or 17.83% in 2018. The Hospital District continues to see increases in utilization of ancillary services, particularly imaging and laboratory services, since implementation of swing bed intermediate care services during 2015 and 2016.

The Hospital District recognizes contractual adjustments, charity care, and the provision for bad debts against gross patient service revenue to arrive at net patient service revenue. Contractual adjustments represent the difference between patient charges and the amounts collected in accordance with government regulations concerning the calculation of healthcare payments for Medicare and Medicaid beneficiaries and for adjustments for various contractual agreements with commercial insurance carriers. The contractual adjustments, charity care, and provision for bad debts reduced net patient service revenue by \$1,087,703 in 2019 and by \$1,225,370 in 2018.

Operating expenses increased by 14.27% from 2018 to 2019 and increased by 5.00% from 2017 to 2018. The increase in operating expenses in 2019 were due primarily to an increase in salaries and employee benefits of \$423,489 or approximately 16% and a hospital management contract of \$195,000.

Net nonoperating revenues consist primarily of property taxes levied by the Hospital District, investment earnings, grants, contributions, net of interest expense on long-term debt.

### **Capital Assets**

At the end of 2019, the Hospital District had \$664,016 invested in capital assets, net of accumulated depreciation and debt outstanding for the acquisition of capital assets, as detailed in Notes 5 and 6 to the financial statements. The Hospital District acquired new capital assets of approximately \$25,000 and \$150,000 in 2019 and 2018, respectively.

### **Debt**

The Hospital leases certain property and equipment under capital lease agreements including new leases in 2018 of \$126,961 to finance the acquisition of laboratory equipment.

### **Other Economic Factors**

The assessed valuation for the Hospital District for 2019 (2020 fiscal year) is \$25,889,809 which is an increase of \$724,177 or 2.88% from the assessed valuation for 2018 (2019 fiscal year) of \$25,165,632. The total taxes levied for the 2020 fiscal year was \$560,516 compared to \$509,933 for 2019.

### **Issues Facing the Hospital District**

There are issues facing the Hospital District that could result in material changes in its financial position in the long term. Among these issues are:

- Issues related to COVID-19 pandemic. As noted above, the effect on service levels as well as additional pandemic related costs, has resulted in some uncertainty regarding operations going forward. However, these uncertainties are somewhat mitigated by the federal and state pandemic

assistance programs as discussed in Note 13 to the financial statements. Management will continue to monitor the situation closely and the effects on operations and cash flows.

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Employment and labor issues. The Hospital is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.
- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital.

#### **Contacting The Hospital District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital District's finances and to show the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital District Administration Department, at Sumner County Hospital District No. 1, 601 S. Osage, Caldwell, Kansas, 67022.

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**BALANCE SHEETS**

**DECEMBER 31, 2019 AND 2018**

	ASSETS			
	Primary Government		Component Unit	
	2019	2018	2019	2018
Current assets:				
Cash and cash equivalents (Notes 1 and 3)	\$ 660,998	\$ 1,338,486	\$ 223,183	\$ 243,499
Cash – Restricted	2,979	2,971	–	–
Accounts receivable, net of allowance for doubtful accounts of \$365,000 in 2019 and \$255,000 in 2018 (Notes 1 and 8)	679,139	776,239	–	–
Uncollected current property taxes receivable (Note 1)	560,516	509,933	–	–
Inventories (Note 1)	141,183	181,559	–	–
Estimated third-party payor settlements (Note 2)	393,850	–	–	–
Prepaid expenses and other	25,142	23,366	–	–
Total current assets	2,463,807	2,832,554	223,183	243,498
Noncurrent cash and investments:				
Board designated assets (Note 3)	3,315	3,307	–	–
Other investments (Note 3)	–	–	56,790	49,554
Total noncurrent cash and investments	3,315	3,307	56,790	49,554
Property and equipment, at cost (Notes 1, 5, and 6):				
Land	5,085	5,085	5,000	5,000
Land improvements	60,500	60,500	3,405	3,405
Building	1,352,757	1,352,757	234,064	234,064
Fixed equipment	871,468	871,468	–	–
Movable equipment	3,230,246	3,205,239	–	–
Total property and equipment	5,520,056	5,495,049	242,469	242,469
Less accumulated depreciation	4,772,002	4,621,079	158,345	142,960
Net property and equipment	748,054	873,970	84,124	99,509
Total noncurrent assets	751,369	877,277	140,914	149,063
Total assets	3,215,176	3,709,831	364,097	392,562
Deferred outflows of resources:				
Pension	289,552	324,715	–	–
Other post employment benefits	11,546	8,508	–	–
Total deferred outflows of resources	301,098	333,223	–	–
Total assets and deferred outflows of resources	\$ 3,516,274	\$ 4,043,054	\$ 364,097	\$ 392,562

# LIABILITIES AND NET POSITION

	Primary Government		Component Unit	
	2019	2018	2019	2018
Current liabilities:				
Accounts payable	\$ 121,725	\$ 114,643	\$ —	\$ —
Salaries and wages payable	64,836	46,470	—	—
Payroll taxes payable	5,331	21,798	—	—
Estimated third-party payor settlements (Note 2)	—	438,586	—	—
Current portion of compensated absences payable (Notes 1 and 5)	91,190	83,615	—	—
Current portion of long-term debt (Note 5)	<u>25,091</u>	<u>37,902</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>308,173</u>	<u>743,014</u>	<u>—</u>	<u>—</u>
Non-current liabilities:				
Long-term debt (Note 5)	58,947	84,038	—	—
Compensated absences payable (Notes 1 and 5)	28,797	26,404	—	—
Net pension liability (Notes 1 and 7)	1,342,358	1,333,495	—	—
Net other postemployment benefits liability (Notes 1 and 10)	<u>34,823</u>	<u>26,200</u>	<u>—</u>	<u>—</u>
Total non-current liabilities	<u>1,464,925</u>	<u>1,470,137</u>	<u>—</u>	<u>—</u>
Total liabilities	<u>1,773,098</u>	<u>2,213,151</u>	<u>—</u>	<u>—</u>
Deferred inflows of resources:				
Deferred property taxes receivable (Note 1)	560,516	509,933	—	—
Pension plan (Note 1 and 7)	49,624	84,952	—	—
Other postemployment benefits (Note 1 and 10)	<u>6,302</u>	<u>7,125</u>	<u>—</u>	<u>—</u>
Total deferred inflows of resources	<u>616,442</u>	<u>602,010</u>	<u>—</u>	<u>—</u>
Net position (Notes 1 and 4):				
Net investment in capital assets	664,016	752,030	84,124	99,509
Restricted – expendable for specific operating activities	2,979	2,971	—	—
Unrestricted	<u>459,739</u>	<u>472,892</u>	<u>279,973</u>	<u>293,053</u>
Total net position	<u>1,126,734</u>	<u>1,227,893</u>	<u>364,097</u>	<u>392,562</u>
Total liabilities, deferred inflows of resource and net position	<u>\$ 3,516,274</u>	<u>\$ 4,043,054</u>	<u>\$ 364,097</u>	<u>\$ 392,562</u>

The accompanying notes are an integral part of the financial statements.

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES**  
**IN NET POSITION**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Operating revenues:				
Net patient service revenue	\$4,593,255	\$4,260,370	\$ —	\$ —
Ambulance subsidy	87,500	87,500	—	—
Grants and contributions	—	—	865	1,023
Rent income	—	—	15,600	15,600
Total operating revenues	<u>4,680,755</u>	<u>4,347,870</u>	<u>16,465</u>	<u>16,623</u>
Operating expenses:				
Salaries	2,284,937	1,975,678	—	—
Employee benefits	782,288	668,058	—	—
Supplies and other	2,142,548	1,878,250	39,132	3,180
Depreciation and amortization	<u>150,923</u>	<u>169,119</u>	<u>15,385</u>	<u>16,107</u>
Total operating expenses	<u>5,360,696</u>	<u>4,691,105</u>	<u>54,517</u>	<u>19,287</u>
Operating income (loss)	<u>(679,941)</u>	<u>(343,235)</u>	<u>(38,052)</u>	<u>(2,664)</u>
Non-operating revenues (expenses):				
Tax revenues	535,797	512,575	—	—
Investment return	2,060	1,852	8,337	(2,876)
Interest expense	(7,144)	(11,076)	—	—
Noncapital grants and contributions	11,696	26,030	—	—
Other	<u>36,373</u>	<u>15,419</u>	<u>1,250</u>	<u>—</u>
Total non-operating revenues (expenses)	<u>578,782</u>	<u>544,800</u>	<u>9,587</u>	<u>(2,876)</u>
Increase (decrease) in net position	<u>(101,159)</u>	<u>201,565</u>	<u>(28,465)</u>	<u>(5,540)</u>
Net position at beginning of year	<u>1,227,893</u>	<u>1,026,328</u>	<u>392,562</u>	<u>398,102</u>
Net position at end of year	<u>\$1,126,734</u>	<u>\$1,227,893</u>	<u>\$ 364,097</u>	<u>\$ 392,562</u>

The accompanying notes are an integral  
part of the financial statements.

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 3,857,919	\$ 4,497,876	\$ —	\$ —
Payments to suppliers and contractors	(2,115,380)	(1,857,079)	(39,132)	(3,180)
Payments to/on behalf of employees	(3,023,384)	(2,644,653)	—	—
Other receipts and payments, net	<u>87,500</u>	<u>87,500</u>	<u>16,465</u>	<u>16,623</u>
Net cash flows provided (used) by operating activities	<u>(1,193,345)</u>	<u>83,644</u>	<u>(22,667)</u>	<u>13,443</u>
Cash flows from noncapital financing activities:				
Property taxes	535,797	512,575	—	—
Noncapital grants and contributions	11,696	26,030	—	—
Other	<u>36,373</u>	<u>44,435</u>	<u>1,250</u>	<u>—</u>
Net cash flows provided by noncapital financing activities	<u>583,866</u>	<u>583,040</u>	<u>1,250</u>	<u>—</u>
Cash flows from capital and related financing activities:				
Principal payments on long-term debt	(37,902)	(115,467)	—	—
Interest paid on long-term debt	(7,144)	(11,076)	—	—
Issuance of capital lease	—	126,961	—	—
Purchases of capital assets	(25,007)	(149,567)	—	—
Other	<u>—</u>	<u>(29,016)</u>	<u>—</u>	<u>—</u>
Net cash flows used by capital and related financing activities	<u>(70,053)</u>	<u>(178,165)</u>	<u>—</u>	<u>—</u>
Cash flows from investing activities:				
Changes in board-designated assets, net	(8)	(9)	—	—
Investment income	<u>2,060</u>	<u>1,852</u>	<u>1,101</u>	<u>1,126</u>
Net cash flows provided by investing activities	<u>2,052</u>	<u>1,843</u>	<u>1,101</u>	<u>1,126</u>
Net increase (decrease) in cash and cash equivalents	(677,480)	490,362	(20,316)	14,569
Cash and cash equivalents at beginning of year	<u>1,341,457</u>	<u>851,095</u>	<u>243,499</u>	<u>228,930</u>
Cash and cash equivalents at end of year	<u>\$ 663,977</u>	<u>\$ 1,341,457</u>	<u>\$ 223,183</u>	<u>\$ 243,499</u>

	Primary Government		Component Unit	
	2019	2018	2019	2018
Reconciliation of operating loss to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (679,941)	\$ (343,235)	\$ (38,052)	\$ (2,664)
Adjustments to reconcile operating loss to net cash flows used in operating activities:				
Depreciation and amortization	150,923	169,119	15,385	16,107
Provision for doubtful accounts	358,705	328,904	—	—
Pension and OPEB	15,507	(10,135)	—	—
Net (increases) decreases in current assets:				
Accounts receivable	(261,605)	(611,747)	—	—
Property taxes receivable	(50,583)	(21,043)	—	—
Inventories	40,376	(10,556)	—	—
Estimated third-party payor settlements	(393,850)	81,763	—	—
Other current assets	(1,776)	(6,601)	—	—
Net increases (decreases) in current liabilities:				
Accounts payable	5,035	41,930	—	—
Compensated absences payable	9,968	6,617	—	—
Salaries and wages payable	18,366	2,601	—	—
Payroll taxes payable	(16,467)	(3,602)	—	—
Estimated third-party payor settlements	(438,586)	438,586	—	—
Deferred inflows of resources-uncollected current property taxes	50,583	21,043	—	—
Net cash provided (used) by operating activities	<u>\$ 1,193,345</u>	<u>\$ 83,644</u>	<u>\$ (22,667)</u>	<u>\$ 13,443</u>

The accompanying notes are an integral part of the financial statements.

# **HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

## **NOTES TO FINANCIAL STATEMENTS**

**December 31, 2019 and 2018**

### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies is presented to assist in understanding the Hospital District's financial statements. The financial statements and notes are representations of the Hospital District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

#### **Organization and business activity**

The hospital is owned by Hospital District No. 1, Sumner County, Kansas (Hospital District) and is governed by an elected Board of Trustees. The hospital provides acute care, outpatient, swing-bed and home health services.

#### **Discretely presented component unit**

The component unit columns in the financial statements consist of the financial data of the Hospital District's component unit, the Caldwell Area Hospital and Health Foundation (Foundation), a tax-exempt nonprofit organization. It is reported in separate columns to emphasize that it is legally separate from the Hospital District. The Foundation is considered a component unit of the Hospital District since the purpose of the Foundation is primarily to secure and expend financial aid for the operations, maintenance, and expansion of the health care facilities and services of the Hospital District.

#### **Accounting standards**

The Hospital District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

#### **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Allowance for doubtful accounts**

Accounts receivable (Note 8) is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**

Cash and cash equivalents include short-term certificates of deposit, money market, and interest bearing checking accounts, excluding those investments designated by the Board of Trustees for the purchase or replacement of capital assets, with maturities of three months or less (Note 3).

**Budgetary principles**

The Hospital District is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operations and maintenance and employee benefits funds on or before August 25 of the preceding year. The Hospital District's Board of Trustees may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital Board of Trustees.

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	Operation and Maintenance Fund	Employee Benefits Fund
GAAP basis net position at December 31, 2019	\$ 1,126,734	\$ —
Adjustments:		
Net property and equipment	(748,054)	—
Net long-term debt	84,038	—
Net pension liability and deferred inflows/outflows	1,102,430	—
Net other postemployment benefit liability	<u>29,579</u>	<u>—</u>
Budgetary basis fund balance at December 31, 2019	<u>\$ 1,594,727</u>	<u>\$ —</u>

**Property taxes receivable**

In accordance with governing statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred inflows of resources on the balance sheet.

## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Inventories**

Inventories are stated at cost as determined by the first-in, first-out method.

### **Capital assets**

The Hospital District's capital assets that are \$5,000 or greater, are recorded at cost at the date of acquisition. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 years
Buildings and fixed equipment	10-40 years
Movable equipment	5-20 years

Maintenance and repairs are charged to expense and renewals and expenditures for improvements are capitalized.

### **Net patient service revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### **Charity care**

The Hospital District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy based on current poverty level guidelines. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital had qualifying charity care of \$4,148 and \$210 for the years ended December 31, 2019 and 2018, respectively, estimated by multiplying the Hospital District's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

### **Grants and contributions**

From time to time, the Hospital District receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Net position**

Net position of the Hospital District is classified into three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable for specific operating activities* are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Unrestricted net position* are remaining assets less remaining liabilities that do not meet the definition of *net investment in capital assets* or *restricted*.

### **Operating revenues and expenses**

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

### **Risk management**

The Hospital District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three preceding years. The Hospital District also purchases professional liability insurance to cover medical malpractice claims. Management is not aware of any asserted or unasserted claims or incidents arising from services provided to patients.

### **Compensated absences**

All full-time and part-time employees receive up to 31 days paid time off per year depending upon length of service. Upon resignation or retirement from service with the Hospital District, employees are entitled to payment for all accrued paid time off, up to the allowable maximum. The Hospital District fund accrues compensated absence benefits as earned.

### **Taxation**

The Hospital District is a political subdivision of the State of Kansas and is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

The Foundation has received a ruling from the Internal Revenue Service exempting it from federal income tax in accordance with Section 501(c)(3) of the Internal Revenue Code. The federal exemption from income tax is also recognized by state authorities.

### **Deferred inflows of resources/Deferred outflows of resources**

In addition to assets, the balance sheets report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and is not recognized as an outflow of resources (expense/expenditure) until the future period. The Hospital District reports amounts related to pensions on the of net position as a deferred outflow of resources.

In addition to liabilities, the balance sheets report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Hospital District reports amounts related to pensions and property taxes receivable on the balance sheets as deferred inflows of resources.

## 1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Pension and other postemployment benefit (OPEB) plans**

The Hospital District participates in the Kansas Public Employees Retirement System Plan (KPERS), a cost sharing multiple employer defined benefit pension plan. The Hospital district also provides long-term disability benefits to its employees through KPERS. The Hospital District uses information provided by KPERS to measure the net pension and OPEB liability, deferred outflows of resources, and deferred inflows of resources to the KPERS plan.

### **Subsequent events**

Subsequent events have been evaluated through September 4, 2020 which is the date the financial statements were available to be issued.

## 2. **ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS**

The Hospital District has agreements with third-party payors that provide for payments to the Hospital District at amounts different from its established rates. These payment arrangements include:

- **Medicare** – The Hospital District is recognized as a Critical Access Hospital (CAH) under the Medicare program. As such, inpatient acute care, skilled swing-bed and certain outpatient services rendered to program beneficiaries are paid at 101% of allowable cost subject to certain limitations. Certain other outpatient services are paid based on fee schedules. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicare administrative contractor. The Hospital District's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2017. Beginning in 2013, a mandatory payment reduction, known as sequestration, of 2% of program cost went into effect.
- **Medicaid** – Inpatient and outpatient services rendered to program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage that is based on previously filed cost reports.

Approximately 65% and 63% of net patient service revenue is from participation in the Medicare program for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and other third-party payor programs. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

## 3. **CASH AND INVESTMENTS**

The Hospital District's cash and investments consisted of the following:

### 3. CASH AND INVESTMENTS – (continued)

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Cash and cash equivalents:				
Cash on hand	\$ 300	\$ 300	\$ –	\$ –
Checking accounts	120,453	488,211	–	–
Money market accounts	491,335	801,316	223,182	243,499
Certificates of deposit	51,889	51,630	–	–
	663,977	1,341,457	223,182	243,499
Board designated assets:				
Money market account	3,315	3,307	–	–
	<u>\$ 667,292</u>	<u>\$ 1,344,764</u>	<u>\$ 223,182</u>	<u>\$ 243,499</u>
Other investments:				
Wichita Community Foundation	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 56,790</u>	<u>\$ 49,554</u>

The board-designated assets have been designated by the Board of Trustees to be used for the replacement of capital assets or for the acquisition of additional assets. These assets can be utilized for other purposes at the discretion of the Board of Trustees.

The Foundation's investment with the Wichita Community Foundation, a non-profit organization, are kept in a trust fund. The trust places these funds in various cash and stock items and the withdrawal of principal and investment earnings are subject to the approval of the Wichita Community Foundation's Board of Directors.

Investment return consisted of the following:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,060	\$ 1,852	\$ 2,110	\$ 2,316
Net realized and unrealized gains/(losses)	–	–	6,227	(5,192)
	<u>\$ 2,060</u>	<u>\$ 1,852</u>	<u>\$ 8,337</u>	<u>\$ (2,876)</u>

#### Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital District's deposits may not be returned or the Hospital District will not be able to recover collateral securities in the possession of an outside party. The Hospital District's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities.

At December 31, 2019, the carrying amount of the Hospital District's deposits, which approximates their fair value, was \$666,992 with the bank balances of such accounts being \$723,120. Of the bank balances, \$481,786 was secured by federal depository insurance and the remaining balance of \$241,334 was secured by collateral held by the Hospital District's custodial banks in joint custody in the name of the Hospital District and its banks. The fair value of those pledged securities held by the Hospital District's custodial banks was \$1,300,000 at December 31, 2019.

### 3. CASH AND INVESTMENTS – (continued)

The remaining carrying amount of the Hospital District's cash and investments at December 31, 2019 consisted of cash on hand of \$300.

At December 31, 2019, the carrying amount of the Hospital District's component unit's deposits was \$223,183 with the bank balances of such accounts being \$223,183, all of which was secured by federal depository insurance.

#### Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital's investing activities are managed under the custody of the Hospital Chief Executive Officer and Board of Trustees. The Hospital District's component unit's investing activities are under the custody of the component unit's Board of Trustees. Investing is performed in accordance with investment policies adopted by the respective Boards of Trustees and in compliance with State statutes.

Applicable state statutes authorize the Hospital District to invest in (1) temporary notes or no-fund warrants issued by the Hospital District (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Hospital District's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

### 4. RESTRICTED NET ASSETS

Restricted, expendable net position consists of cash and cash equivalents and are available for nursing scholarships. Net position released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors was \$—for both the years ended December 31, 2019 and 2018, respectively.

### 5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended December 31, 2019 and 2018:

	Balance At December 31, 2018	Additions	Reductions	Balance At December 31, 2019	Amounts Due Within One Year
Long-term debt:					
Capital lease obligations	\$ 121,940	\$ —	\$ 37,902	\$ 84,038	\$ 25,091
Other liabilities:					
Compensated absences payable	110,019	166,830	156,862	119,987	91,190
Total noncurrent liabilities	\$ 231,959	\$ 166,830	\$ 194,764	\$ 204,025	\$ 116,281

**5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)**

	Balance At December 31, 2017	Additions	Reductions	Balance At December 31, 2018	Amounts Due Within One Year
Long-term debt:					
Capital lease obligations	\$ 110,446	\$ 126,961	\$ 115,467	\$ 121,940	\$ 37,902
Other liabilities:					
Compensated absences payable	103,402	151,175	144,558	110,019	83,615
Total noncurrent liabilities	<u>\$ 213,848</u>	<u>\$ 278,136</u>	<u>\$ 260,025</u>	<u>\$ 231,959</u>	<u>\$ 121,517</u>

**Capitalized lease obligations**

The Hospital leases certain assets under capital lease agreements including new leases of \$— and \$126,961 in 2019 and 2018, respectively. Interest expensed under the capital lease agreements was \$7,144 and \$11,076 for the years ended December 31, 2019 and 2018, respectively. The following is an analysis of the financial presentation of the capital leases:

	December 31,	
	2019	2018
Movable equipment	\$ 126,961	\$ 288,574
Less accumulated depreciation	(48,595)	(142,251)
	<u>\$ 78,366</u>	<u>\$ 146,323</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2019:

Year ending December 31,:	
2020	\$ 29,652
2021	29,652
2022	29,576
2023	<u>3,902</u>
Gross minimum lease payments	92,782
Less amount representing interest	<u>8,744</u>
Present value of net minimum lease payments	84,038
Less current portion	<u>25,091</u>
Long term portion	<u>\$ 58,947</u>

**6. CAPITAL ASSETS**

Capital asset additions, disposals, and balances for the years ended December 31, 2019 and 2018 were as follows:

**6. CAPITAL ASSETS (continued)**

	Balance At December 31, 2018	Additions and Transfers In	Disposals and Transfers Out	Balance At December 31, 2019
<b><u>Hospital</u></b>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ —	\$ —	\$ 5,085
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>5,085</u>	<u>—</u>	<u>—</u>	<u>5,085</u>
Capital assets being depreciated:				
Land				
improvements	60,500	—	—	60,500
Buildings	1,352,757	—	—	1,352,757
Fixed equipment	871,468	—	—	871,468
Movable equipment	<u>3,205,239</u>	<u>25,007</u>	<u>—</u>	<u>3,230,246</u>
Total capital assets being depreciated	<u>5,489,964</u>	<u>25,007</u>	<u>—</u>	<u>5,514,971</u>
Less accumulated depreciation for:				
Land				
improvements	56,661	2,361	—	59,022
Buildings	1,019,638	35,870	—	1,055,508
Fixed equipment	616,629	32,733	—	649,362
Movable equipment	<u>2,928,151</u>	<u>79,959</u>	<u>—</u>	<u>3,008,110</u>
Total accumulated depreciation	<u>\$ 4,621,079</u>	<u>\$ 150,923</u>	<u>\$ —</u>	<u>\$ 4,772,002</u>
Total capital assets being depreciated, net	<u>868,885</u>	<u>(125,916)</u>	<u>—</u>	<u>742,969</u>
Total capital assets, net	<u>\$ 873,970</u>	<u>\$ (125,916)</u>	<u>\$ —</u>	<u>\$ 748,054</u>

**6. CAPITAL ASSETS (continued)**

	Balance At December 31, 2017	Additions and Transfers In	Disposals and Transfers Out	Balance At December 31, 2018
<b>Hospital</b>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ —	\$ —	\$ 5,085
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>5,085</u>	<u>—</u>	<u>—</u>	<u>5,085</u>
Capital assets being depreciated:				
Land				
improvements	60,500	—	—	60,500
Buildings	1,352,757	—	—	1,352,757
Fixed equipment	871,468	—	—	871,468
Movable equipment	<u>3,055,672</u>	<u>149,567</u>	<u>—</u>	<u>3,205,239</u>
Total capital assets being depreciated	<u>5,340,397</u>	<u>149,567</u>	<u>—</u>	<u>5,489,964</u>
Less accumulated depreciation for:				
Land				
improvements	53,063	3,598	—	56,661
Buildings	974,990	44,648	—	1,019,638
Fixed equipment	582,498	34,131	—	616,629
Movable equipment	<u>2,841,409</u>	<u>86,742</u>	<u>—</u>	<u>2,928,151</u>
Total accumulated depreciation	<u>\$ 4,451,960</u>	<u>\$ 169,119</u>	<u>\$ —</u>	<u>\$ 4,621,079</u>
Total capital assets being depreciated, net	<u>888,437</u>	<u>(19,552)</u>	<u>—</u>	<u>868,885</u>
Total capital assets, net	<u>\$ 893,522</u>	<u>\$ (19,552)</u>	<u>\$ —</u>	<u>\$ 873,970</u>

**6. CAPITAL ASSETS (continued)**

	Balance At December 31, 2018	Additions	Disposals	Balance At December 31, 2019
<b><u>Component unit</u></b>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ —	\$ —	\$ 5,000
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>5,000</u>
Capital assets being depreciated:				
Land improvements	3,405	—	—	3,405
Buildings	<u>234,064</u>	<u>—</u>	<u>—</u>	<u>234,064</u>
Total capital assets being depreciated	<u>237,469</u>	<u>—</u>	<u>—</u>	<u>237,469</u>
Less accumulated depreciation for:				
Land improvements	3,242	163	—	3,405
Buildings	<u>139,718</u>	<u>15,222</u>	<u>—</u>	<u>154,940</u>
Total accumulated depreciation	<u>142,960</u>	<u>15,385</u>	<u>—</u>	<u>158,345</u>
Total capital assets being depreciated, net	<u>94,509</u>	<u>(15,385)</u>	<u>—</u>	<u>79,124</u>
Total capital assets, net	<u>\$ 99,509</u>	<u>\$ (15,385)</u>	<u>\$ —</u>	<u>\$ 84,124</u>
	Balance At December 31, 2017	Additions	Disposals	Balance At December 31, 2018
<b><u>Component unit</u></b>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ —	\$ —	\$ 5,000
Construction in progress	—	—	—	—

**6. CAPITAL ASSETS (continued)**

	Balance At December 31, 2017	Additions	Disposals	Balance At December 31, 2018
Total capital assets not being depreciated	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>5,000</u>
Capital assets being depreciated:				
Land				
improvements	3,405	—	—	3,405
Buildings	<u>234,064</u>	<u>—</u>	<u>—</u>	<u>234,064</u>
Total capital assets being depreciated	<u>237,469</u>	<u>—</u>	<u>—</u>	<u>237,469</u>
Less accumulated depreciation for:				
Land				
improvements	3,014	228	—	3,242
Buildings	<u>123,839</u>	<u>15,879</u>	<u>—</u>	<u>139,718</u>
Total accumulated depreciation	<u>126,853</u>	<u>16,107</u>	<u>—</u>	<u>142,960</u>
Total capital assets being depreciated, net	<u>110,616</u>	<u>(16,107)</u>	<u>—</u>	<u>94,509</u>
Total capital assets, net	<u>\$ 115,616</u>	<u>\$ (16,107)</u>	<u>\$ —</u>	<u>\$ 99,509</u>

**7. PENSION PLAN**

**Plan description**

The Hospital District participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple employer defined benefit pension plan covering substantially all employees. The Pension Plan is administered by KPERS, a body corporate and an instrumentality of the State of Kansas. KPERS provides benefit provisions to the following statewide pension groups under one plan, as provided by K.S.A. 74-4901 *et. seq.*:

Public employees, which includes:

- State/School employees
- Local government employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the Pension Plan. Participation by local political subdivisions such as the Hospital District is optional, but irrevocable once elected.

KPERS makes separate calculations for pension-related amounts for the four groups noted above, with the Hospital District participating in the local government employees group.

## 7. **PENSION PLAN (continued)**

The KPERS plan is a cost-sharing, multiemployer, defined benefit plan. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or by accessing the internet at the KPERS website at [www.kpers.org](http://www.kpers.org).

### **Benefits provided**

KPERS provides retirement, life insurance, disability income, and death benefits and is established by statute and may only be changed by the Kansas Legislature. Normal retirement is at age 65, 62 with ten years of credited service, or whenever a member's combined age and years of service equal 85. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit.

Monthly retirement benefits are based on statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

### **Contributions**

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a Tier 1, Tier 2 or Tier 3 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009 through December 31, 2014, and Tier 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for Tier 1, Tier 2 and Tier 3 members. Member employee contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for Tier 1, Tier 2 and Tier 3 be determined based on the results of each annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employees. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the fiscal year ended December 31, 2019.

7. **PENSION PLAN (continued)**

The Hospital District's rates established by statute are as follows:

<u>Period</u>	<u>Percent</u>
January 1, 2018 to December 31, 2018	8.39%
January 1, 2019 to December 31, 2019	8.89

The employer contribution rate is actuarially determined as an amount that, when combined with the employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Hospital District's contributions to KPERS for pensions for the years ended December 31, 2019 and 2018, were \$290,387 and \$240,648, respectively.

**Employer Allocations**

Although KPERS administers one cost sharing multiple employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense are determined separately for each of the following groups of the plan:

- State/School employees
- Local government employees
- Police and Firemen
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital District is included in the local group. The allocation percentages presented for each group are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group. The Hospital District's share of the collective pension amounts as of December 31, 2019 and 2018, are based on the proportion of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2019 and 2018, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. At December 31, 2019, the District's proportion of KPERS was 0.096063%, which is an increase of 0.000389% from its proportion measured at December 31, 2018.

**Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources**

At December 31, 2019 and 2018, the Hospital District reported a liability of \$1,342,358 and \$1,333,495, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018, respectively. The Hospital District's proportion of the collective net pension liability was based on the ratio of the Hospital District's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods.

For the years ended December 31, 2019 and 2018, the Hospital District recognized pension expense of \$213,548 and \$146,047, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period. At December 31, 2019 and 2018 the Hospital District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

7. **PENSION PLAN** (continued)

	December 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital District contributions subsequent to the measurement date	\$ 97,879	\$ —
Differences between expected and actual experience	2,938	33,806
Net difference between projected and actual earnings on pension plan investments	31,582	—
Changes of assumptions	41,027	2,721
Changes in proportion	<u>116,126</u>	<u>13,097</u>
Total	<u>\$ 289,552</u>	<u>\$ 49,624</u>

	December 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Hospital District contributions subsequent to the measurement date	\$ 71,379	\$ —
Differences between expected and actual experience	4,814	37,785
Net difference between projected and actual earnings on pension plan investments	31,195	—
Changes of assumptions	57,746	6,422
Changes in proportion	<u>159,581</u>	<u>40,745</u>
Total	<u>\$ 324,715</u>	<u>\$ 84,952</u>

At December 31, 2019, the Hospital District reported \$97,879 as deferred outflows of resources related to pensions resulting from Hospital District's contributions subsequent to the measurement date of June 30, 2019 through the Hospital District's year end of December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2020	\$ 70,153
2021	30,327
2022	29,591
2023	12,163
2024	(185)

**Actuarial assumptions**

The total pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, which were then rolled forward to June 30, 2019 and 2018, respectively, using the following actuarial assumptions:

7. **PENSION PLAN** (continued)

	<u>2018</u>	<u>2017</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including wage increases and inflation	3.50 to 12.00%	3.50 to 12.00%
Investment rate of return, compounded annually, net of investment expense, and including inflation	7.75%	7.75%

For 2018 and 2017, mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The actuarial assumptions used in the December 31, 2018 valuation, were based on the results of an actuarial experience study conducted for the three-year period ending December 31, 2015 and was dated November 18, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

<u>Asset Class</u>	<u>December 31, 2019</u>	
	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.85%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	<u>2.00</u>	(0.25)
Total	<u>100.00%</u>	

<u>Asset Class</u>	<u>December 31, 2018</u>	
	<u>Long-Term Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	47.00%	6.85%
Fixed Income	13.00	1.25
Yield Driven	8.00	6.55
Real Return	11.00	1.71
Real Estate	11.00	5.05
Alternatives	8.00	9.85
Short-Term Investments	<u>2.00</u>	(0.25)
Total	<u>100.00%</u>	

## 7. **PENSION PLAN (continued)**

### **Discount rate**

The discount rate used to measure the total pension liability was 7.75% for the years ended December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for these groups may not increase by more than the statutory cap (1.2% for 2019). The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### **Sensitivity of the net pension liability to changes in the discount rate**

The following table presents the Hospital District's share of the net pension liability of the pension plan calculated using the discount rate of 7.75% for 2019 and 2018, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1.00% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1.00% Increase <u>(8.75)</u>
Hospital District's proportionate share of the net pension liability (2019)	\$ 2,004,839	\$ 1,342,358	\$ 788,204
	1.00% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1.00% Increase <u>(8.75)</u>
Hospital District's proportionate share of the net pension liability (2018)	\$ 1,955,764	\$ 1,333,495	\$ 807,620

### **Pension plan fiduciary net position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

## 8. **CONCENTRATIONS OF CREDIT RISK**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	December 31,	
	2019	2018
Medicare	\$ 461,787	\$ 476,830
Medicaid	42,607	71,601
Commercial	416,361	380,872
Other	<u>103,384</u>	<u>101,936</u>
Gross accounts receivable	1,024,139	1,031,239
Less allowance for doubtful accounts	<u>365,000</u>	<u>255,000</u>
	<u>\$ 659,139</u>	<u>\$ 776,239</u>

## **9. BUILDING LEASE AGREEMENT**

The component unit has entered into an agreement with a not-for-profit organization to provide space for a local physician's office. The lease term is for five years with an option to renew for an additional five year term. The annual rent is \$15,600 commencing with the second year of the lease and is payable in installments of \$1,300 per month.

## **10. OTHER POST-EMPLOYMENT BENEFITS**

### **KPERS Death and Disability OPEB Plan**

#### **Plan description**

The Hospital District participates in an agent multiple-employer defined benefit other postemployment benefit (OPEB) plan which is administered by KPERS. The Plan provides long-term disability benefits and life insurance benefits for disabled KPERS members, as provided by K.S.A. 74-04927. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. There is no stand-alone financial report for the Plan. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

#### **Benefits provided**

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60% (prior to January 1, 2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver premium provision.

#### **Long-term disability benefit**

The monthly benefit is 60% of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65<sup>th</sup> birthday or retirement date, whichever occurs first. If the disability occurs after age 60, benefits are payable while the disability continues, for a period of 5 years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

#### **Group waiver of premium benefit**

Upon the death of an employee who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of the member's annual rate of compensation at the time of the disability or the member's previous 12 months of compensation at the time of the last date of payroll. If the member has been disabled for 5 or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefits rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual life insurance plan.

# **10. OTHER POST-EMPLOYMENT BENEFITS – (continued)**

## **Members covered by benefit terms**

The following members were covered by the benefit terms as of December 31:

	<u>2018</u>	<u>2017</u>
Active employees	36	35
Disabled employees	—	—
	<u>36</u>	<u>35</u>

## **Total OPEB liability**

At December 31, 2019 and 2018, the Hospital District reported a total OPEB liability of \$34,823 and \$26,200, respectively

## **Actuarial assumptions and other inputs**

The total OPEB liability was determined by actuarial valuations as of December 31, 2018 and 2017, which were then rolled forward to June 30, 2019 and 2018, respectively, using the following actuarial assumptions:

	<u>2018</u>	<u>2017</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including price inflation	3.50 to 10.00%	3.50 to 10.00%
Discount rate	3.50%	3.87%

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2014 Mortality tables, as appropriate, with adjustments for mortality improvements based on Scale MP-2017.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on an actuarial experience study conducted for the period December 31, 2013 through December 31, 2015.

## **Changes in the total OPEB liability**

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Changes for the year:		
Service cost	\$ 6,010	\$ 5,942
Interest cost	1,247	1,172
Changes in economic/demographic gains/(losses)	1,217	(7,597)
Changes in assumptions or other inputs	149	(92)
Benefit payments	—	—
Net changes	8,623	(575)
Net OPEB liability at beginning of year	<u>26,200</u>	<u>26,775</u>
Net OPEB liability at end of year	<u>\$ 34,823</u>	<u>\$ 26,200</u>

**10. OTHER POST-EMPLOYMENT BENEFITS – (continued)**

**Changes in assumptions**

Changes in assumptions and other inputs reflect the effects of changes in the discount rate for each period. The discount rate decreased from 3.87% in 2018 to 3.50% in 2019.

**Sensitivity of the total OPEB liability to changes in the discount rate and health care cost trend rates**

The following table presents the Hospital District's share of the total OPEB liability of the disability plan calculated using the appropriate discount rates for 2019 and 2018, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current discount rate for each year, respectively:

	1.00% Decrease (2.50%)	Current Discount Rate (3.50%)	1.00% Increase (4.50%)
Hospital District's total OPEB liability (2019) \$	34,930	\$ 34,823	\$ 34,319
	1.00% Decrease (2.87%)	Current Discount Rate (3.87%)	1.00% Increase (4.87%)
Hospital District's total OPEB liability (2018) \$	26,419	\$ 26,200	\$ 25,760

The total OPEB liability of the Hospital District is not impacted by health care cost trend rates given the nature of the benefits provided by the OPEB plan, and as such no sensitivity tables were prepared for the health care cost trend rates.

**OPEB expense**

For the year ended December 31, 2019 and 2018, the Hospital District recognized OPEB expense of \$4,762 and \$2,837, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

**Deferred outflows of resources and deferred inflows of resources**

The following is a summary of the collective deferred outflows or resources and deferred inflows of resources related to the OPEB plan at December 31:

	2019	2018
Deferred outflows of resources:		
Benefit payments subsequent to the measurement date	\$ 10,320	\$ 8,508
Differences between expected and actual experience	1,092	—
Changes of assumptions	134	—
	<u>\$ 11,546</u>	<u>\$ 8,508</u>

**10. OTHER POST-EMPLOYMENT BENEFITS – (continued)**

	<u>2019</u>	<u>2018</u>
Deferred inflows of resources:		
Differences between expected and actual experience	\$ 6,029	\$ 6,813
Changes of assumptions	<u>273</u>	<u>312</u>
	<u>\$ 6,302</u>	<u>\$ 7,125</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2019, that will be recognized in OPEB expense in future years.

	Benefit Payments Subsequent to the Measurement Date	Recognition of Net Deferred Outflows and Inflows of Resources By Year	<u>Total</u>
Year ending December 31:			
2019	\$ 10,320	\$ (683)	\$ 9,637
2020	—	(683)	(683)
2021	—	(683)	(683)
2022	—	(683)	(683)
2023	—	(683)	(683)
Thereafter	<u>—</u>	<u>(1,661)</u>	<u>(1,661)</u>
	<u>\$ 10,320</u>	<u>\$ (5,076)</u>	<u>\$ 5,244</u>

**Group Health Insurance Plan**

As provided by K.S.A. 12-5040, the Hospital District is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital District would be subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. Management believes that the effect on the financial statements is not significant. The Hospital District provides no other post-employment benefits, other than a retirement plan, for former employees.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital District makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage.

**11. MANAGEMENT SERVICES AGREEMENT**

Effective October 1, 2018, the Hospital District entered an agreement with Hospital District No. 6, Harper County, Kansas (the Manager), to provide certain management services to the Hospital District. Under the agreement the Hospital District will pay a monthly fee of \$25,000 to the Manager. The Manager will also hire an Administrator for the Hospital District with the Administrator's salary and employee benefits to be borne by the Manager. The agreement expired during 2019 and was not renewed.

**12. COMPLIANCE WITH KANSAS STATUTES**

Kansas statutes prohibit the expenditures of individual funds to exceed the adopted budget for such funds. For the year ended December 31, 2019, the operations and maintenance fund expenditures exceeded the adopted budget in the amount of \$124,934.

### **13. SUBSEQUENT EVENT**

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to many countries, including the United States. On March 11, 2020, the World Health Organization (WHO) characterized the COVID-19 as a global pandemic as it continued to spread rapidly throughout the world. Business continuity, including supply chains and consumer demand across a broad range of industries and countries have been and may continue to be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

In 2020 and in response to the pandemic, the federal government through the Department of Health and Human Services (HHS) has provided stimulus funds totaling \$2,462,170 to assist in managing the additional costs and disruptions in normal operations incurred by healthcare providers as a result of the pandemic. HHS requires that certain conditions be met in order to retain these funds. If these conditions are met in full, the funds will be retained by the Hospital District.

Additionally, the Hospital District has obtained a loan through a local bank in the amount of \$579,825 that is fully guaranteed by the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP) that was implemented in response to the pandemic. If the Hospital meets certain conditions under the program, all or part of the loan will be forgiven.

The Hospital has also received a grant of \$100,000 from the State of Kansas to assist in managing operations and cash flows during the pandemic.

Management continues to carefully monitor the requirements of these programs and evaluate the Hospital's compliance and requirements for the use and retention of these funds. No adjustments have been made to these financial statements as a result of this uncertainty.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**Schedule of the Hospital District's Proportionate Share of the  
Net Pension Liability Last Ten Years\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital District's proportion percentage of the net pension liability	0.096063%	0.095674%	0.091441%	0.082827%	0.077245%
Hospital District's proportionate share of the net pension liability	\$ 1,342,358	\$ 1,333,495	\$ 1,324,482	\$ 1,281,358	\$ 1,014,261
Hospital District's covered employee payroll	\$ 1,947,672	\$ 1,672,325	\$ 1,676,364	\$ 1,563,797	\$ 1,362,911
Hospital District's proportionate share of the net pension liability as a percentage of its covered employee payroll	68.92%	79.74%	79.01%	81.94%	74.42%
Plan fiduciary net position as a percentage of the total pension liability	69.88%	68.88%	67.12%	65.10%	64.95%

**Schedule of Hospital District's Contributions  
Last Ten Years\***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	173,369	140,308	141,820	\$ 139,758	\$ 129,909
Contribution in relation to the contractually required contribution	<u>173,369</u>	<u>140,308</u>	<u>141,820</u>	<u>139,758</u>	<u>129,909</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Hospital District's covered payroll	<u>\$ 1,947,672</u>	<u>\$ 1,672,325</u>	<u>\$ 1,676,364</u>	<u>\$ 1,563,797</u>	<u>\$ 1,362,911</u>
Contributions as a percentage of covered employee payroll	8.90%	8.39%	8.46%	8.94%	9.53%

\* - This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

# HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

## Schedule of Changes in the Hospital District's Net OPEB Liability and Related Ratios – Last 10 Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability:			
Service cost	\$ 6,010	\$ 5,942	\$ 6,000
Interest	1,247	1,172	750
Effect of economic/demographic gains or losses	1,217	(7,597)	–
Effect of assumption changes or inputs	149	(92)	(275)
Benefit payments	<u>–</u>	<u>–</u>	<u>–</u>
Net change in total OPEB liability	8,623	(575)	6,475
Total OPEB liability at beginning of year	<u>26,200</u>	<u>26,775</u>	<u>20,300</u>
Total OPEB liability at end of year	<u>\$ 34,823</u>	<u>\$ 26,200</u>	<u>\$ 26,775</u>
Covered employee payroll	<u>\$ 1,659,842</u>	<u>\$ 1,606,180</u>	<u>\$ 1,468,710</u>
Total OPEB liability as a percentage of covered employee payroll	<u>2.10%</u>	<u>1.63%</u>	<u>1.82%</u>

**Note to Schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Changes in assumptions: Discount rate changed from 3.58% in 2017 to 3.87% in 2018 and 3.50% in 2019.

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**OPERATION AND MAINTENANCE FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2019

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	\$ 3,786,841	\$ 3,786,841	\$ 4,593,255	\$ 806,414
Taxes	409,594	409,594	407,403	(2,191)
Other	<u>112,091</u>	<u>112,091</u>	<u>137,629</u>	<u>25,538</u>
Total revenues	<u>4,308,526</u>	<u>4,308,526</u>	<u>5,138,287</u>	<u>829,761</u>
Expenditures:				
Salaries	1,993,763	1,993,763	2,284,937	(291,174)
Employee benefits	570,788	570,788	640,434	(69,646)
Supplies and contractual services	2,108,487	2,108,487	2,149,692	(41,205)
Capital outlay	290,000	290,000	62,909	227,091
Transfers to Employee Benefits Fund	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>50,000</u>
Total expenditures	<u>5,013,038</u>	<u>5,013,038</u>	<u>5,137,972</u>	<u>(124,934)</u>
Excess of revenue over expenditures (expenditures over revenue)	(704,512)	(704,512)	315	704,827
Fund balance, beginning of year	<u>954,664</u>	<u>954,664</u>	<u>1,594,412</u>	<u>639,748</u>
Fund balance, end of year	<u>\$ 250,152</u>	<u>\$ 250,152</u>	<u>\$ 1,594,727</u>	<u>\$ 1,344,575</u>

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**EMPLOYEE BENEFITS FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2019

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 129,766	\$ 129,766	\$ 128,394	\$ (1,372)
Transfers from operations and maintenance fund	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>(50,000)</u>
Total revenues	179,766	179,766	128,394	(51,372)
Expenditures – Employee benefits	<u>179,766</u>	<u>179,766</u>	<u>128,394</u>	<u>51,372</u>
Excess of revenue over expenditures (expenditures over revenue)	—	—	—	—
Fund balance, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**ADDITIONAL INFORMATION**

# HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

## SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nursing service	\$ 1,002,454	\$ 33,635	\$ 1,036,089	\$ 1,101,669	\$ 36,208	\$ 1,137,877
Operating room	1,250	131,794	133,044	1,190	154,168	155,358
Anesthesiology	1,661	63,288	64,949	1,582	77,549	79,131
Radiology	56,126	437,749	493,875	75,974	383,310	459,284
CAT scan	52,653	558,100	610,753	55,876	459,892	515,768
MRI	8,173	152,228	160,401	7,784	157,009	164,793
Laboratory	109,576	991,481	1,101,057	114,808	915,373	1,030,181
Physical therapy	90,841	158,805	249,646	99,349	116,262	215,611
Occupational therapy	3,562	—	3,562	—	—	—
Electrocardiology	3,783	71,738	75,521	3,766	55,491	59,257
Medical supplies	55,769	54,706	110,475	69,930	48,172	118,102
Pharmacy	194,648	416,391	611,039	240,035	403,602	643,637
Emergency room	5,576	764,909	770,485	5,577	680,285	685,862
Ambulance	—	260,062	260,062	799	220,080	220,879
	<u>\$ 1,586,072</u>	<u>\$ 4,094,886</u>	5,680,958	<u>\$ 1,778,339</u>	<u>\$ 3,707,401</u>	5,485,740
Contractual adjustments			(724,667)			(896,224)
Charity care			(4,331)			(242)
Bad debts			<u>(358,705)</u>			<u>(328,904)</u>
			<u>\$ 4,593,255</u>			<u>\$ 4,260,370</u>

**HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS**

**SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION**

Year ended December 31, 2019					Percent of total operating expenses
	Salaries	Supplies and other	Depreciation	Total	
Routine service:					
Nursing service	\$ 692,229	\$ 175,948	\$ 16,675	\$ 884,852	16.51 %
Ancillary services:					
Operating room	525	13,869	7,407	21,801	0.41
Anesthesiology	—	20,965	—	20,965	0.39
Radiology	141,361	58,989	1,450	201,800	3.76
CAT scan	2,860	183,796	179	186,835	3.49
MRI	1,054	34,300	267	35,621	0.66
Laboratory	176,853	269,391	30,871	477,115	8.90
Physical therapy	88,027	1,637	324	89,988	1.68
Occupational therapy	—	2,050	—	2,050	0.04
Electrocardiology	35	1,067	1,182	2,284	0.04
Medical supplies	28,031	60,211	—	88,242	1.65
Pharmacy	2,536	174,185	—	176,721	3.30
Emergency room	480,997	56,192	—	537,189	10.02
Ambulance	104,275	30,266	12,342	146,883	2.74
	<u>1,026,554</u>	<u>906,918</u>	<u>54,022</u>	<u>1,987,494</u>	<u>37.08</u>
General services:					
Nursing administration	72,762	—	—	72,762	1.36
Dietary	114,955	54,172	8,137	177,264	3.31
Operation of plant	34,982	111,843	—	146,825	2.74
Housekeeping	51,566	9,820	463	61,849	1.15
Laundry	54	18,362	—	18,416	0.34
Medical records	55,210	27,213	—	82,423	1.54
Administration	230,780	838,272	662	1,069,714	19.95
Employee benefits	5,845	782,288	—	788,133	14.70
Depreciation - building and fixed equipment	—	—	70,964	70,964	1.32
	<u>566,154</u>	<u>1,841,970</u>	<u>80,226</u>	<u>2,488,350</u>	<u>46.41</u>
	<u>\$ 2,284,937</u>	<u>\$ 2,924,836</u>	<u>\$ 150,923</u>	<u>\$ 5,360,696</u>	<u>100.00 %</u>

Year ended December 31, 2018					
	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Nursing service	\$ 652,568	\$ 54,293	\$ 17,355	\$ 724,216	15.43 %
Ancillary services:					
Operating room	—	21,243	15,178	36,421	0.78
Anesthesiology	—	25,440	—	25,440	0.54
Radiology	113,404	59,733	2,914	176,051	3.75
CAT scan	8,429	108,349	179	116,957	2.49
MRI	3,022	38,850	267	42,139	0.90
Laboratory	160,484	213,204	28,681	402,369	8.58
Physical therapy	78,927	468	798	80,193	1.71
Occupational therapy	—	—	—	—	0.00
Electrocardiology	150	704	327	1,181	0.03
Medical supplies	9,608	64,039	—	73,647	1.57
Pharmacy	3,727	167,173	—	170,900	3.64
Emergency room	341,081	109,544	—	450,625	9.61
Ambulance	90,845	17,265	10,685	118,795	2.53
	809,677	826,012	59,029	1,694,718	36.13
General services:					
Nursing administration	82,531	—	—	82,531	1.76
Dietary	99,657	53,349	8,137	161,143	3.44
Operation of plant	30,330	152,856	—	183,186	3.90
Housekeeping	33,242	10,367	1,207	44,816	0.96
Laundry	7,586	9,487	—	17,073	0.36
Medical records	39,708	10,840	—	50,548	1.08
Administration	219,349	761,046	1,014	981,409	20.92
Employee benefits	1,030	668,058	—	669,088	14.26
Depreciation - building and fixed equipment	—	—	82,377	82,377	1.76
	513,433	1,666,003	92,735	2,272,171	48.44
	\$ 1,975,678	\$ 2,546,308	\$ 169,119	\$ 4,691,105	100.00 %